

Message Text

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ACTION ARA-14

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R 172025Z MAR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 6620
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
USMISSION GENEVA

C O N F I D E N T I A L SECTION 1 OF 4 BRASILIA 2137

PASS TREASURY, PARIS FOR USOECD ALSO FOR EMBASSY, BRUSSELS FOR USEEC

E.O. 11652: GDS
TAGS: EFIN, BR
SUBJECT: BRAZIL'S BALANCE OF PAYMENTS: 1977 RESULTS AND PROJECTIONS
FOR 1978

REF: (A) 77 BRASILIA 7594, (B) BRASILIA 0130, (C) BRASILIA 0802,
(D) BRASILIA 1526

1. SUMMARY - BRAZIL'S BALANCE OF PAYMENTS IMPROVED MARKEDLY
IN 1977 BUT PRELIMINARY PROJECTIONS SUGGEST THAT 1978
WILL BE MORE DIFFICULT AND PROBABLY RESULT IN LITTLE OR NO
FURTHER IMPROVEMENT. THE KEY DIFFERENCE IN THE 1977
PERFORMANCE AND THE EXPECTATION FOR 1978 IS A SHARPLY
LOWER EXPORT GROWTH ON THE ORDER OF ONLY 5 PERCENT IN 1978 COMPARED
TO 20 PERCENT IN 1977. THE VERY SATISFACTORY EXPORT
EXPANSION IN 1977 COMBINED WITH NO GROWTH IN IMPORTS TO
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PRODUCE A \$2.3 BILLION IMPROVEMENT IN THE TRADE BALANCE
TO A SURPLUS OF \$140 MILLION. THIS WAS THE FIRST TRADE
SURPLUS SINCE 1973 AND PERMITTED REDUCTION IN THE CURRENT
ACCOUNT DEFICIT TO \$3.9 BILLION AND IN GROSS
FINANCING NEEDS TO \$8 BILLION DESPITE A 30 PERCENT
INCREASE IN DEBT SERVICE REQUIREMENTS. GROSS
BORROWING OF \$8.6 BILLION RESULTED IN AN INCREASE

IN GROSS FOREIGN RESERVES TO A RECORD \$7.2 BILLION AND IN GROSS MEDIUM AND LONG-TERM FOREIGN DEBT OF \$31.2 BILLION AT THE END OF 1977. ALTHOUGH WE PROJECT, AT THIS TIME, LIMITED FURTHER IMPROVEMENT IN THE TRADE SURPLUS IN 1978, THE CURRENT ACCOUNT DEFICIT IS EXPECTED TO RISE TO ABOUT \$4.3 BILLION. A PROJECTED INCREASE IN DEBT AMORTIZATION TO \$5.2 BILLION WOULD BRING THE OVERALL FINANCING GAP TO \$9.5 BILLION IN 1978. THE INCREASE OF 24 PERCENT IN TOTAL DEBT SERVICE PAYMENT IN 1978, COMBINED WITH THE PROJECTED POOR EXPORT PERFORMANCE, SUGGESTS THAT THE RATIO OF GROSS DEBT SERVICE TO MERCHANDISE EXPORTS COULD BE IN EXCESS OF 60 PERCENT. THE DEBT SERVICING SITUATION AND RENEWED INCREASE IN THE OVERALL FINANCIAL GAP COULD, POSSIBLY, BEGIN TO ERODE BRAZIL'S CREDITWORTHINESS IN 1979-80, IF EXPORTS DO NOT RECOVER. HOWEVER, BRAZIL'S CREDIT STANDING IN INTERNATIONAL FINANCIAL MARKETS IS CURRENTLY VERY HIGH OWING TO THE IMPROVEMENT IN THE BALANCE OF PAYMENTS AND INFLATION IN 1977 AND BRAZIL'S COMFORTABLE LEVEL OF FOREIGN RESERVES WHICH COULD BE DRAWN ON IF NECESSARY. THESE FACTORS PLUS CONSIDERABLE FOREIGN BANK LIQUIDITY SUGGEST THAT BRAZIL WILL HAVE NO DIFFICULTY ARRANGING THE DESIRED FINANCING IN 1978. ASSUMING NO INCREASE IN FOREIGN RESERVES IN 1978, NEW BORROWING IN 1978 WOULD BE ABOUT THE SAME AS IN 1977 AND GROSS FOREIGN DEBT WOULD RISE TO APPROXIMATELY \$35 BILLION AT THE END OF THE YEAR. READY ACCESS TO FOREIGN
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BANK RESOURCES COULD IN FACT PERMIT BRAZIL TO FINANCE A LARGER GAP IF THE TRADE BALANCE WERE TO SHIFT TO A DEFICIT OR EVEN TO INCREASE RESERVES IF THE AUTHORITIES DECIDE TO TAKE FURTHER ADVANTAGE OF THE INCREASINGLY FAVORABLE TERMS ON WHICH BANKS ARE PREPARED TO LEND TO BRAZIL IN 1978. END SUMMARY.

2. 1977 RESULTS: CURRENT ACCOUNT AND DEBT AMORTIZATION. BRAZIL'S BALANCE OF PAYMENTS IMPROVED SIGNIFICANTLY IN 1977 AFTER THREE YEARS OF LARGE TRADE DEFICITS AND VERY LARGE GROSS FINANCIAL GAPS. THE TRADE BALANCE IMPROVED BY \$2.3 BILLION IN 1977 AND GROSS RESERVES INCREASED BY NEARLY \$700 MILLION TO A RECORD \$7.2 BILLION AT THE END OF THE YEAR. A 20 PERCENT INCREASE IN EXPORT RECEIPTS AND A SMALL DROP IN IMPORT PAYMENTS ACCOUNTED FOR THE ELIMINATION OF THE TRADE DEFICIT (SEE REF D FOR DETAILS ON TRADE ACCOUNT). THE NET SERVICES DEFICIT ROSE TO \$4.0 BILLION AS INCREASED INTEREST PAYMENTS AND PROFITS REMITTANCES OFFSET DECLINES IN TRAVEL AND TRANSPORTATION THAT WERE ASSOCIATED WITH THE PRIOR DEPOSIT FOR TOURISTS (REF C) AND A

9 PERCENT LOWER VOLUME OF IMPORTS. GIVEN THE
\$140 MILLION TRADE SURPLUS, THE CURRENT ACCOUNT
DEFICIT IMPROVED FROM \$6.0 BILLION IN 1976 TO
\$3.9 BILLION IN 1977. THE CURRENT ACCOUNT DEFICIT
AS A PROPORTION OF GDP THUS DECLINED FROM 4.2 PERCENT
IN 1976 TO ABOUT 2.4 PERCENT IN 1977. A \$1 BILLION
INCREASE IN DEBT AMORTIZATION TO \$4.1
OFFSET ABOUT ONE-HALF OF THE IMPROVEMENT IN
THE CURRENT ACCOUNT. THE RESULTING GROSS FINANCIAL
GAP IN 1977 WAS 8 BILLION, COMPARED TO 9 BILLION
IN 1976.

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R 172025Z MAR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 6621
INFO AMCONSUL RIO DE JANEIRO
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C O N F I D E N T I A L SECTION 2 OF 4 BRASILIA 2137

PASS TREASURY, PARIS FOR USOECD ALSO FOR EMBASSY, BRUSSELS FOR USEEC

3. 1977 RESULTS: FOREIGN BORROWING. THE REDUCTION
IN FINANCING NEEDS PERMITTED BRAZIL TO REDUCE GROSS
NEW FOREIGN BORROWING FROM \$10.0 BILLION IN 1976
TO \$8.3 BILLION IN 1977. THE LATTER CONSISTED OF
\$1.8 BILLION IN IMPORT FINANCING, \$6.6 BILLION IN
FINANCIAL LOANS, AND A NEW OUTFLOW OF \$200
MILLION ATTRIBUTABLE TO SHORT-TERM CAPITAL AND CHANGES
IN THE FOREIGN ASSET POSITION OF COMMERCIAL BANKS. (SUM OF COMPONENTS
DO NOT GIVE TOTAL DUE TO ROUNDING - SEE TABLE IN PARA 5)
NET DIRECT FOREIGN INVESTMENT FLOWS DECLINED SOMEWHAT
TO ABOUT \$850 MILLION. A COMPARVSON WITH 1976

SHOWS THAT FAVORABLE MARKET
 CONDITIONS PROMPTED BRAZIL TO INCREASE ITS LEVEL OF
 MEDIUM AND LONG-TERM BORROWING BY \$400 MILLION IN
 1977 WHILE INCURRING A SMALL NET OUTFLOW OF
 SHORT-TERM CAPITAL. RESOLUTION 63 LOANS TO BRAZILIAN
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BANKS DECLINED SLIGHTLY IN 1977 WHILE LAW 4131 LOANS
 DIRECT TO BRAZILIAN END-USERS INCREASED. BORROWING
 BY MEANS OF BOND ISSUES INCREASED SUBSTANTIALLY TO
 \$700 MILLION IN 1977 AS THE GOB AND MAJOR STATE
 ENTERPRISES SOUGHT TO DIVERSIFY THEIR SOURCES OF
 FINANCING AND TO ACQUIRE MORE FAVORABLE TERMS IN THE
 FORM OF LONGER MATURITIES AND FIXED INTEREST RATES (REF B).

4. 1977 RESULTS: GROSS RESERVES AND FOREIGN DEBT.
 BRAZIL'S GROSS FOREIGN EXCHANGE RESERVES OF \$7.2
 BILLION AT THE END OF 1977 WERE EQUIVALENT TO APPROXI-
 MATELY 7 MONTHS OF 1977 F.O.B. IMPORTS. GROSS PUBLIC
 AND PRIVATE MEDIUM AND LONG-TERM FOREIGN DEBT ROSE TO
 AN ESTIMATED \$31.2 BILLION AT THE END OF 1977. THE
 INCREASE IN GROSS DEBT WAS 20 PERCENT OR EXACTLY
 EQUIVALENT TO THE RATE OF INCREASE IN EXPORT EARNINGS.
 GIVEN THE LIMITED INCREASE IN GROSS RESERVES, NET FOREIGN
 DEBT (GROSS DEBT MINUS GROSS RESERVES) INCREASED SOME-
 WHAT MORE RAPIDLY (23 PERCENT). AS A RESULT, THE RATIO
 OF LIQUID OR NET FOREIGN DEBT AT THE END OF THE YEAR
 TO EXPORTS DURING THE YEAR DETERIORATED MARGINALLY
 FROM 1.92 IN 1976 TO 1.98 IN 1977. TOTAL DEBT SERVICE
 (GROSS INTEREST PAYMENTS PLUS AMORTIZATION) INCREASED
 BY 29 PERCENT AND THUS INCREASED AS A PROPORTION OF
 MERCHANDISE EXPORTS FROM ABOUT 50 PERCENT IN 1976 TO 54
 PERCENT IN 1977. ANOTHER CONVENTIONAL DEBT SERVICE
 RATIO (NET INTEREST PLUS AMORTIZATION/EXPORTS, OF
 GOODS AND NON-FACTOR SERVICES) ALSO INCREASED
 BUT THE MAGNITUDES ARE OF COURSE MUCH SMALLER; I.E.,
 FROM ABOUT 43 PERCENT IN 1976 TO ABOUT 46 PERCENT
 IN 1977 (SEE TABLE IN PARA 9).

5. BRAZIL'S BALANCE OF PAYMENTS 1976-78 (MILLIONS OF \$US)
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	1976	1977	1978
	(REVISED)	(PRELIMINARY)	(PROJECTIONS)
TRADE BALANCE		- 2,218	140 416

EXPORTS	10,128	12,139	12,773
IMPORTS	-12,343	-11,999	-12,357
NET SERVICES	- 3,759	- 4,019	- 4,700
TRAVEL	- 304	- 174	- 250
TRANSPORT	- 969	- 854	- 950
PROFITS	- 380	- 455	- 500
INTEREST	-1,810	- 2,103	- 2,450
(RECEIPTS	(281)	(359)	(450)
PAYMENTS	(- 2,091	(- 2,462	(- 2,900)
OTHER	- 296	- 430	- 550

CURRENT ACCOUNT

BALANCE	- 5,977	- 3,879	- 4,284
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DEBT AMORTIZATION	- 2,992	- 4,082	- 5,200
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FINANCIAL GAP	- 8,969	- 7,961	- 9,484
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FINANCED BY:

NET DIRECT INVESTMENT	962	841	850
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MEDIUM AND LONG-TERM

BORROWING	8,032	8,478	8,600
IMPORT FINANCING	1,785	1,829	1,900
FINANCIAL CREDITS	6,247	6,649	6,700
LAW 4131	(4,519)	(4,671)	(4,500)
RESOL. 63	(1,459)	(1,270)	(1,200)
BONDS	(269)	(708)	(1,000)

OTHER CAPITAL	1,979	- 184	-
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ERRORS AND OMISSIONS	500	- 513	-
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OFFICIAL RESERVES

CHANGE			
(- EQUALS INCREASE)	- 2,504	- 661	- 34

END OF PERIOD	6,544	7,205	7,239
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R 172025Z MAR 78
FM AMEMBASSY BRASILIA
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INFO AMCONSUL RIO DE JANEIRO
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C O N F I D E N T I A L SECTION 3 OF 4 BRASILIA 2137

PASS TREASURY, PARIS FOR USOECD ALSO FOR EMBASSY, BRUSSELS FOR USEEC

6. 1978 PROJECTION: CURRENT ACCOUNT AND FINANCIAL GAP.
IN CONTRAST TO THE SHARP IMPROVEMENT IN THE TRADE
BALANCE AND CURRENT ACCOUNT IN 1977, THE OUTLOOK FOR BRAZIL'S
TRADE ACCOUNT IN 1978 IS VERY UNCERTAIN. WE ANTICIPATE
ONLY MARGINAL IMPROVEMENT IN THE TRADE BALANCE IN
1978 AND A WIDENING OF THE CURRENT ACCOUNT DEFICIT
TO \$4.3 BILLION. LOWER WORLD PRICES FOR MAJOR
COMMODITIES AND POSSIBLE CONSTRAINTS ON THE SUPPLY
OF AGRICULTURAL PRODUCTS ARE THE MAIN FACTORS
CONTRIBUTING TO A FORECAST OF ONLY 5 PERCENT GROWTH
IN EXPORT EARNINGS IN 1978 (REF D). THIS WOULD BE
THE LOWEST RATE OF INCREASE IN EXPORTS SINCE 1967
AND IMPLIES FURTHER INCREASE IN THE DEBT SERVICE
RATIO AND DETERIORATION IN THE RATIO OF NET DEBT TO
EXPORTS (SEE PARA 7 BELOW). WITH A PROJECTED
3 PERCENT INCREASE IN IMPORT PAYMENTS, THE TRADE
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SURPLUS WOULD IMPROVE TO ABOUT \$400 MILLION. NET
SERVICES ARE EXPECTED TO REACH \$4.7 BILLION IN 1978,
WITH OVER ONE-HALF OF THE INCREASE ATTRIBUTABLE TO
HIGHER INTEREST PAYMENTS. ASSUMING 5 PERCENT GROWTH
IN GDP IN 1978, THE PROJECTED CURRENT ACCOUNT DEFICIT
WOULD INCREASE AS A PROPORTION OF GDP TO ABOUT 2.6 PERCENT.
THE CENTRAL BANK IS PROJECTING DEBT AMORTIZATIONS
OF \$5.2 BILLION IN 1978 WHICH, COMBINED WITH THE

CURRENT ACCOUNT DEFICIT, WOULD GIVE A GROSS FINANCING REQUIREMENT OF ABOUT \$9.5 BILLION. THIS FINANCING GAP WOULD BE \$1.5 BILLION LARGER THAN IN 1977 AND WOULD IN FACT EXCEED THE PREVIOUS PEAK OF \$9 BILLION IN 1974.

7. 1978 PROJECTIONS: FINANCING. WE PROJECT NET DIRECT FOREIGN INVESTMENT OF \$850 MILLION AND NEW MEDIUM AND LONG-TERM BORROWING OF \$8.6 BILLION IN 1978 TO MEET THE BALANCE OF PAYMENTS FINANCIAL GAP. THE INVESTMENT FIGURE MAY BE LOW BUT WE ANTICIPATE THAT CONTINUED RELATIVELY SLOW GDP GROWTH AND GOB APPLICATION OF MORE SELECTIVE FOREIGN INVESTMENT CRITERIA WILL PRECLUDE ANY INCREASE OVER 1976. THE MEDIUM AND LONG-TERM BORROWING FORECAST IS ONLY marginally higher than the amount contracted in 1977, IN PART BECAUSE WE ASSUME NO FURTHER INCREASE IN GROSS FOREIGN RESERVES IN 1978. BRAZIL COULD IN FACT DRAW DOWN ITS RESERVES TO PERHAPS \$6.0 BILLION IF BORROWING CONDITIONS HARDEN AND/OR IF THE AUTHORITIES CHOOSE TO LIMIT THE GROWTH IN FOREIGN DEBT. RESERVES OF \$6.0 BILLION WOULD STILL BE EQUIVALENT TO ABOUT 6 MONTHS OF PROJECTED 1978 IMPORTS. AT THIS TIME, HOWEVER, BRAZIL'S CREDITWORTHINESS IS HIGH IN INTERNATIONAL FINANCIAL MARKETS OWING TO THE IMPROVED BALANCE OF PAYMENTS IN 1977, THE REDUCTION IN DOMESTIC

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INFLATION FROM 46 PERCENT IN 1976 TO 38 PERCENT IN 1977, AND THE VERY COMFORTABLE GROSS RESERVES AT THE END OF 1977. EVIDENCE IS ABUNDANT FROM BOTH BANKERS AND THE GOB THAT DUE ALSO TO THE VERY LIQUID CONDITIONS IN FOREIGN FINANCIAL MARKETS BRAZILIAN BORROWERS HAVE READY ACCESS TO LOANS ON INCREASINGLY ATTRACTIVE TERMS. A SYNDICATED LOAN LED BY THE BANK OF AMERICA FOR THE BND IN JAN 1978 WAS A MAJOR TURNING POINT AS IT SIMULTANEOUSLY EXTENDED THE MATURITY TO 10 YEARS AND LOWERED THE INTEREST SPREAD OVER LIBOR TO 2 PERCENT. THROUGHOUT MOST OF 1977 STANDARD RATE SPREADS FOR LOANS TO THE GOB OR WITH GOVERNMENT GUARANTEE WERE 1 7/8 FOR 5 YEARS AND 2 1/4 FOR 8 YEARS. LOANS ARE REPORTEDLY BEING NEGOTIATED CURRENTLY AT 1 1/4 FOR 5 YEARS AND 1 7/8 FOR 8 YEARS. MOREOVER, MATURITIES OF UPLQW YEARS AND GRACE PERIODS OF UP TO 6 YEARS

HAVE BEEN REPORTED. THESE TERMS AND THE FACT THAT AN INCREASING PROPORTION OF THE NEW LOANS WILL ESSENTIALLY CONSTITUTE ROLLOVERS OR REFINANCING OF MATURING DEBT SUGGEST THAT BRAZIL WILL HAVE NO DIFFICULTY IN MEETING ITS FINANCING NEEDS IN 1978.

8. 1978 PROJECTIONS: FOREIGN DEBT AND DEBT SERVICE CAPACITY. THE IMPROVED BORROWING TERMS WILL BE IMPORTANT IN PERMITTING BRAZIL TO SURMOUNT ITS RISING DEBT SERVICE BURDEN IN THE MEDIUM-TERM. ESPECIALLY IMPORTANT IS REPORTED LENGTHENING OF THE GRACE PERIOD TO 3-4 YEARS IN PRACTICE, ALTHOUGH THE OFFICIAL MINIMUM REMAINS 30 MONTHS. IN THE SHORT-TERM PERSPECTIVE OF 1978, HOWEVER, THE OVERALL FOREIGN DEBT POSITION AND DEBT SERVICING BURDEN MUST BE EXPECTED TO INCREASE. THE PROJECTED BORROWING LEVELS IMPLY AN 11 PERCENT INCREASE IN GROSS FOREIGN DEBT TO ABOUT \$35 BILLION AT THE END OF 1978. ASSUMING NO CHANGE IN GROSS
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RESERVES, THE LIQUID FOREIGN DEBT WOULD INCREASE 14 PERCENT TO APPROXIMATELY \$27.5 BILLION. THE RATIO OF NET OR LIQUID DEBT TO EXPORTS WOULD RISE TO 2.15.

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R 172025Z MAR 78
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C O N F I D E N T I A L SECTION 4 OF 4 BRASILIA 2137

PASS TREASURY, PARIS FOR USOECD ALSO FOR EMBASSY, BRUSSELS FOR USEEC

THE RATIOS IMPLIED BY THE PROJECTIONS OF EXPORTS AND DEBT SERVICE ALSO INCREASE: GROSS INTEREST PAYMENTS AND AMORTIZATIONS RISE 24 PERCENT AND ARE EQUIVALENT TO ABOUT 63 PERCENT OF PROJECTED MERCHANDISE EXPORTS; NET DEBT SERVICE/EXPORTS OF GOODS AND NON-FACTOR SERVICES GOES UP TO 54 PERCENT. THIS DEBT SERVICE BURDEN WOULD BE SUBSTANTIAL BUT NOT UNMANAGEABLE IN VIEW OF THREE FACTORS: THE INCREASING STRENGTH AND DIVERSITY OF THE BRAZILIAN ECONOMY; THE EXPECTATION THAT THE COUNTRY'S CREDIT STANDING WILL NOT WORSEN IN 1978; THE FACT THAT THE DEBT FIGURES AND RATIOS ENCOMPASS TOTAL MEDIUM AND LONG-TERM FOREIGN DEBT (I.E., PRIVATE AS WELL AS PUBLIC DEBT).

9. SELECTED INDICATORS OF BRAZIL'S DEBT SERVICE CAPACITY.

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	1976	1977	1978
	(PRELIMINARY)	(PROJECTED)	

ANNUAL PERCENT INCREASE

GROSS DEBT	22.7	20.1	10.9
GROSS DEBT SERVICE	28.7	28.8	23.8
EXPORTS (GOODS ONLY)	16.8	19.9	5.2

RATIOS

CURRENT ACCOUNT

DEFICIT/GDP	.041	.024	.026
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NET DEBT/EXPORTS

(GOODS ONLY)	1.92	1.98	2.15
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NET DEBT SERVICE/EXPORTS

(GOODS AND SERVICES)	43.0	46.4	54.3
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GROSS DEBT SERVICE/EXPORTS

(GOODS ONLY)	50.2	53.9	63.4
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10. COMMENT - THE EXPECTED LACK OF SIGNIFICANT PROGRESS IN 1978 TOWARD INCREASING THE TRADE SURPLUS AND REDUCING DEPENDENCE ON FOREIGN BORROWING WILL BE TOLERABLE IN THE SHORT-TERM BUT BY 1969-80 COULD POSSIBLY CAUSE EROSION OF THE CURRENT WILLINGNESS OF FOREIGN BANKS TO LEND TO BRAZIL. MANY BANKS APPEAR TO ACCEPT AND EVEN PROJECT \$3-5 BILLION ANNUAL GROWTH IN BRAZIL'S EXTERNAL INDEBTEDNESS THROUGH 1980. HOWEVER, WE BELIEVE THEY WOULD BECOME CONCERNED IF BRAZIL'S FOREIGN DEBT CONTINUES AFTER 1978 TO GROW MORE RAPIDLY THAN EXPORTS. FLOWS OF FOREIGN FINANCING FROM OFFICIAL INTERNATIONAL INSTITUTIONS WILL CONTINUE TO RISE AFTER 1978 ON THE BASIS OF PROEJCTED COMBINED

IBRD/IDB LOAN APPROVALS OF \$1 BILLION PER YEAR AND
INCREASED EXIMBANK ACTIVITY IN BRAZIL. NONETHELESS,
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THE FOREIGN DEBT SITUATION WILL CONTINUE TO BE A DELICATE ONE THROUGH AT LEAST 1981 AND THE ANTICIPATED DEBT SERVICE HUMP COULD CONTINUE TO GROW INSTEAD OF BEGINNING TO TAPER OFF IF ACCELERATED ECONOMIC RECOVERY IS NOT FORTHCOMING IN THE INDUSTRIALIZED NATIONS SO AS TO ACCELERATE DEMAND FOR BRAZIL'S EXPORTS. THE DEBT SERVICE TASK COULD BE FURTHER COMPLICATED IF PROTECTIONIST PRESSURES INCREASE DUE TO SLUGGISH GROWTH AND UNEMPLOYMENT IN BRAZIL'S MAJOR MARKETS AND CAUSE INCREASING RETALIATORY MEASURES RELATED TO BRAZIL'S HIGHLY RESTRICTIVE IMPORT REGIME AND HIGHLY SUBSIDIZED EXPORTS. ON THE OTHER HAND, THE GOB AUTHORITIES HAVE CAREFULLY AND SUCCESSFULLY STRETCHED OUT THE COUNTRY'S FOREIGN DEBT. THE FAVORABLE DEBT STRUCTURE (ONLY 17 PERCENT OF TOTAL PUBLIC AND PRIVATE MEDIUM AND LONG-TERM DEBT AT THE END OF 1977 IS DUE IN 1978), STEPS TO INCREASE THE GRACE PERIOD ON CURRENT BORROWING, AND THE HIGH LEVEL OF GROSS RESERVES SUGGEST THAT BRAZIL IS REASONABLY WELL PREPARED TO WEATHER ITS MEDIUM-TERM DEBT SERVICE PROBLEMS. BRAZIL COULD FINANCE A LARGER GAP THAN THAT PROJECTED FOR 1978 IF EXPORTS AND THE TRADE BALANCE FALL SHORT OF OUR PROJECTIONS DUE MAINLY TO DROUGHT DAMAGE. MINISTER SIMONSEN HIMSELF EVEN HAS MENTIONED THE POSSIBILITY OF A \$1 BILLION INCREASE IN RESERVES TO \$8.2 BILLION AT THE END OF THE YEAR. (THIS PROSPECT, HOWEVER, REPORTEDLY WAS BASED ON AN ASSUMPTION OF A FINANCIAL GAP OF ONLY \$8.5 BILLION IN CONTRAST TO OUR PROJECTION OF \$9.5 BILLION.) IN CONCLUSION, WE FORESEE 1978 AS A HOLDING PATTERN YEAR FOR BRAZIL'S BALANCE OF PAYMENTS WITH PERHAPS SOME IMPROVEMENT IN THE TRADE ACCOUNT BUT NOT ENOUGH TO AVOID WORSENING OF THE DEBT SERVICE SITUATION. THE PROJECTED PARTIAL REVERSAL OF THE IMPROVEMENTS RECORDED IN 1977 WILL NOT PRESENT SERIOUS DIFFICULTIES IN THE SHORT-RUN. IN THE MEDIUM-TERM,
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HOWEVER, INCREASED WORLD DEMAND FOR BRAZIL'S EXPORTS AND A LARGER TRADE SURPLUS ARE ESSENTIAL. ONLY THEN WILL THE GOB: 1) BE ABLE TO REDUCE THE GROWTH OF FOREIGN INDEBTEDNESS AND DEPENDENCE ON FOREIGN SAVINGS;

AND 2) PERCEIVE THAT IT HAS THE FLEXIBILITY TO
PHASEDOWN IMPORT RESTRICTIONS AND EXPORT SUBSIDIZATION,
WHICH IS NECESSARY IN ORDR TO REDUCE THE EXISTING
INFLATIONARY BIAS OF THE EXTERNAL SECTOR AND TO
CONTRIBUTE TO DEVELOPMENT OF A MORE COMPETITIVE BRAZILIAN
ECONOMY.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, ECONOMIC TRENDS, TRADE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 17 mar 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL02137
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780120-0936
Format: TEL
From: BRASILIA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780357/aaaabvlz.tel
Line Count: 555
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 92a017c5-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
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